

Message Text

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SUBJECT: VIEWS OF PROFESSOR MODIGLIANI AND ALLEGED STANCE OF
IMF ON ITALIAN PARTICIPATION IN EUROPEAN MONETARY UNION

REF: ROME 13849

PASS FRB

1. SUMMARY. PROFESSOR FRANCO MODIGLIANI EXPLAINED WHY HE THOUGHT IT WOULD BE RISKY FOR ITALY TO JOIN THE EUROPEAN MONETARY UNION (EMU) IN AN INTERVIEW IN LA REPUBBLICA (AUGUST 1). ON AUGUST 2 LA REPUBBLICA FEATURED AN ITEM STATING THAT ONE OF THE CONDITIONS IN THE PROPOSED IMF LETTER OF INTENT WOULD REQUIRE AN EXCHANGE RATE POLICY FOR THE LIRA SUCH AS TO PRECLUDE ITALIAN PARTICIPATION IN EMU. END SUMMARY.

2. A SYNOPSIS OF SOME OF MODIGLIANI'S VIEWS EXPRESSED IN LA REPUBBLICA FOLLOWS. QUOTE. EVERYONE, I WOULD SAY, REALIZES THAT IT WOULD BE QUITE RISKY FOR ITALY TO JOIN THE EUROPEAN MONETARY CLUB IF THE PRESENT STRUCTURAL ECONOMIC DIFFICULTIES ARE NOT RESOLVED. THE CONSEQUENCE
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(OF JOINING) WOULD IN FACT BE THAT IN A RATHER SHORT TIME INTERNATIONAL SPECULATION WOULD TURN AGAINST THE LIRA, AS ALREADY HAPPENED 5 YEARS AGO, AND AT THE END ITALY WOULD BE FORCED TO WITHDRAW FROM THE EUROPEAN CLUB A SECOND TIME. AN EVENT OF THIS SORT, EVERYONE KNOWS, WOULD HAVE WOEFUL CONSEQUENCES. FOR ITALY, NOT ONLY ECONOMIC BUT ALSO POLITICAL... ON THE CONDITION THAT JOINING THE EUROPEAN MONEY CLUB PROCEEDS

PARI PASSU WITH SIGNIFICANT CHANGES IN THE ITALIAN ECONOMIC AND FINANCIAL STRUCTURE, I THINK THERE IS GENERAL AGREEMENT. THE DIFFERENCES BEGIN AT THIS POINT. THERE ARE THOSE THAT SAY: FIRST LET'S MAKE THE STRUCTURAL ADJUSTMENTS; FOR EXAMPLE, BRING INFLATION INTO LINE WITH THE EUROPEAN AVERAGE, REDUCE THE PUBLIC SECTOR DEFICIT TO REASONABLE LIMITS, ALTER CERTAIN PERVERSE AUTOMATIC MECHANISMS THAT PUSH THE COST OF LABOR AND SOCIAL BENEFITS TOO HIGH; ONLY AFTER REACHING THESE OBJECTIVES WILL WE BE ABLE TO JOIN THE EUROPEAN CLUB. BUT THERE IS ANOTHER GROUP THAT IS SKEPTICAL OF THE CAPACITY OR EVEN THE WILL OF THE POLITICAL FORCES AND UNIONS TO REACH THESE GOALS. FOR THE SECOND GROUP, THE BREMEN PROGRAM REPRESENTS A PRECIOUS AND UNIQUE OPPORTUNITY TO CONSTRAIN THE POLITICAL PARTIES AND UNIONS TO ADOPT POLICIES SUITED TO ASSURING THE PERMANENCE OF THE LIRA IN THE EUROPEAN CLUB...UNTIL SOMETIME AGO I WOULD SURELY HAVE SUPPORTED THE SECOND GROUP, THOSE THAT FOAVRED DIVING IMMEDIATELY INTO THE EUROPEAN MONETARY CLUB. BUT AFTER MANY YEARS OF "USELESS SERMONS," I AM NO LONGER AN OPTIMIST. I AM AFRAID THAT IN SPITE OF THE CONSTRAINTS DERVED FROM MEMBERSHIP IN THE EUROPEAN CLUB, THE ITALIAN MANAGERIAL CLASS WOULD REMAIN IN DEFAULT, AND THEREFORE, WITHIN A SHORT TIME, ITALY WOULD HAVE TO ASK FOR ESCAPE CLAUSES OR EVEN WITHDRAW. THIS PESSIMISM BRINGS ME CLOSER TO THE FIRST GROUP.....UNQUOTE.

3. ON AUGUST 2 LA REPUBBLICA CLAIMED TO HAVE INFORMATION
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FROM A "RELIABLE SOURCE" THAT THE IMF'S ADVICE ON ITALIAN EXCHANGE RATE POLICY CONCERNS "NOT SO MUCH PAINLESS MODIFICATIONS OF THE CENTRAL RATE (OF THE SNAKE) BUT RATHER THE RIGHT OF OUR CENTRAL BANK TO INTERVENE AGAINST MARKET FORCES TO DEFEND THE LIRA," WHICH WOULD PRESUMABLY BE REQUIRED IN THE CASE OF ITALIAN PARTICIPATION IN EMU. COMMENT: THE LA REPUBBLICA ARTICLE PAYED THE TRADITIONAL IMF POLICY PRESCRIPTION AS DIRECTLY IN CONFLICT WITH EMU AND, MOREOVER, AS PART OF AN "AMERICAN COUNTEROFFENSIVE" AGAINST EMU.HOLMES

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